

# **AGAPE** **IGP ACTION PLAN** **2001-2002**

## **Introduction**

In 1999, the Asociación General Para Asesorar Pequeñas Empresas (AGAPE), entered into a partnership agreement with Opportunity International to accomplish a set of objectives for a USAID IGP grant. As of mid Year Two of the grant, AGAPE's activities had fallen short on several objectives. These objectives cover a three year period from 1999 to 2002. The purpose of this report is to analyze variances on key targets; detail steps that AGAPE and Opportunity International are taking to correct current shortfalls; and propose revised targets on one key indicator.

AGAPE has faced three specific challenges in achieving grant objectives during the first two years of the grant period. Colombia has experienced an on-going recession for the past three years. The actual foreign exchange rate varies significantly from the foreign exchange rate used in the Grant Agreement. Accessing commercial funding on favorable terms has been more difficult than originally anticipated.

## **Expected Program Outputs**

	<b>Year 2 Projections 09/01</b>	<b>Mid-Year 2 Actuals 03/01</b>	<b>Variance Fav/(UnFav)</b>
<b>Indicator</b>			
Number of Loans Outstanding	10,296	7,892	(2,404)
Amount of Loans Outstanding	1,894,026	575,039*	(1,318,987)
Portfolio at Risk (> 30 days)	9%	13.23%	(4.23)
Long Run Loss Rate	4%	2.25%	1.75%
Return on Operations	97%	119%	22%
Operating Efficiency	45%	30%	15%
Client Retention Rate (Avg. rate for 3 loan products)	83%	80%	(3%)
<b>Clients Per Loan Officer</b>			
Trust Banks	290	252	(38)
Solidarity Groups	200	300	100
Individual Loans	125	80	(20)
Private sector commercial funds raised to support program (annual basis)	\$200,000	\$41,277	(\$158,723)

\*US\$1=Col\$2309.83

## **Analysis of Variances**

### **1. Number of Active Clients**

At the end of September 2001, AGAPE projects it will have 9,279 clients outstanding, a shortfall of 1,017 clients from the original target of 10,296. This shortfall will correct itself in the first quarter of year 3. AGAPE is committed to reaching 11,891 clients by the end of the project.

Due to the current recession, clients are experiencing a reduction in sales and commercial transactions causing clients to refrain from demanding larger loans and taking out new loans. AGAPE is working to stimulate growth in its number of clients through maintaining a high client retention rate and developing a new market niche for Trust Banks in which clients have a higher level of capital need. This will allow AGAPE not only to gain new clients, but also loan out current cash on hand as a result of an increase in the average loan size generated by clients who demand higher loan amounts.

AGAPE's ability to reach more clients has also been affected by the difficulties they have had in increasing the size of their portfolio through commercial loans. Please see explanation under "Amount of Loans Outstanding."

Finally, AGAPE's office capacity has reached its maximum. Overcrowding at the head office has lead to greater inefficiencies and reduced effectiveness in serving clients. In order to alleviate this problem and provide for future growth, AGAPE is pursuing the acquisition of additional office space. AGAPE submitted a request to USAID in June 2001 to apply funding originally designated for vehicles to a new office space. The remaining balance required to purchase additional office space will be provided through earned income over the past year.

## 2. Amount of Loans Outstanding

The shortfall in amount of loans outstanding represents the most sizeable shortfall in projected targets. The following factors have contributed to this shortfall.

All figures in the business plan submitted to USAID were given in pesos. The exchange rate used in the Grant Agreement to convert the pesos to dollars was US\$1=Col\$1,550 for all three years of projections. The actual exchange rate as of August 6, 2001, was Col\$2,295.72 = US\$1. AGAPE is estimating an exchange rate of Col\$2,300 as of September 30, 2001, and Col\$2,380 as of September 30, 2002. The table below presents the variance between exchange rates.

<b>Year</b>	<b>Year One</b>	<b>Year Two</b>	<b>Year Three</b>
Outstanding Portfolio in Pesos	1,627,720,188	2,935,741,081	5,369,582,891
<i>Exchange Rate – Grant Agreement</i>	<i>1550</i>	<i>1,550</i>	<i>1,550</i>
Outstanding Portfolio in US\$	1,050,142	1,894,026	3,464,247
<i>Exchange Rate – Actual/Projected</i>	<i>2,212.26</i>	<i>2,300</i>	<i>2,380</i>
Outstanding Portfolio in US\$	735,773	1,276,409	2,256,127

Another factor in the outstanding portfolio shortfall has been the lower than anticipated amount of commercial funding AGAPE has been able to access. One difficulty AGAPE

has faced in obtaining commercial funding is related to the interest rate of the market. Due to government imposed interest rate regulations for banks and NGOs acting as financial intermediaries, AGAPE has had to switch from using a flat interest rate to charging interest on a declining balance. The resulting margin between the cost of commercial funds and earned income from interest on client loans would not be enough to cover operational costs.

AGAPE has also been unable to access favorable loan terms from commercial lenders thus substantially limiting the amount of funds they can access at the local level. However, AGAPE has a positive, existing relationship with a private bank in Barranquilla, Banco de Bogotá, and has started discussions regarding opening a line of credit with the bank for more than US\$200,000. The probability of accessing these funds is very high. AGAPE is working to negotiate credit terms favorable to AGAPE and the accomplishment of its objectives.

Another option being investigated is a government organization, IFI, which gives loans to financial institutions such as AGAPE.

Opportunity International is also working with private sources to obtain an infusion of capital into AGAPE in the form of a loan in 2002. Opportunity expects to acquire a minimum of US\$500,000 to be used expressly for the loan portfolio.

### **Portfolio at Risk**

During the first semester of this year, portfolio at risk figures had a tendency to rise. AGAPE is taking corrective action to reduce its arrears and portfolio at risk rates.

- Increase the number of loan officers in the solidarity group program in order to reduce the average number of clients per loan officer. This will allow for specialization which will improve productivity and the quality of the portfolio. It is important to note that AGAPE estimates the arrears in the Trust Bank program will be 3% at the end of September 2001.
- Between August and September, AGAPE is undergoing an intensive loan recovery plan.
- A thorough revision of the Individual and Solidarity Group lending methodologies, which have the highest rates of default. AGAPE will adjust its credit policies accordingly.
- In July 2001, the Executive Director presented an incentive system for Loan Officers to the Board of Directors. The Board is evaluating the system and will reach a decision by September.

By the end of the project, AGAPE expects to have a PAR (>30 days) of 7% and a long run loan loss rate of 3% which is lower than projections.

### **Other Program Targets**

### *Branch in Cartagena, Bolivar*

The Board of Directors and senior management continue to focus on strengthening the growth of the credit program in Barranquilla and other municipalities in the Department of Atlántico. This strategy includes strengthening AGAPE's institutional image in this region; responding to the demand arising from microentrepreneurs who have migrated from violent sections of the country; and maximizing the use of human and economic resources provided through geographic concentration. At the beginning of 2000, AGAPE extended operations into four new zones and today the clients in these zones account for approximately 47% of AGAPE's clients.

Due to the increase in the number of clients and personnel (supervisors and loan officers) concentrated in three of these zones, AGAPE is planning to establish three decentralized branches in the second quarter of 2002 in order to better serve clients.

As a result of AGAPE's focus on consolidation and growth within Baranquilla and the 50% budget reduction from the original proposal (the budget was reduced from US\$1,500,000 to US\$750,000) AGAPE has had to adjust the proposed branch openings for Cartagena, Bolivar and Santa Marta, Magdalena. AGAPE has postponed the opening of the branch in Cartagena until the first quarter of 2003 and has canceled the opening in Santa Marta.

The steps to establish a branch in Cartagena will be:

- a. September and October of 2002 – conduct feasibility study.
- b. November 2002 – initiate contacts and establish strategic alliances with NGOs and other private entities that identify with AGAPE's mission.
- c. December 2002 – search for an office location.
- d. January 2003 – begin search for field and administrative staff.
- e. February 2003 – hire field and administrative staff.
- f. March 2003 – staff training.
- g. March 2003 – branch inauguration.

### *Feasibility Study and Action Plan for Formal Organizational Structure*

The Superintendent of Banks has legislated strict measures and requirements for banks and financial institutions in regards to minimum capital requirements and the characteristics of partners and investors. Likewise, the Office of Tax Administration has established tax requirements that make it difficult for an NGO to transform into a formal financial institution. AGAPE has thus concluded that under present circumstances, the current structure of AGAPE is much more practical in terms of achieving its mission. AGAPE is continuing to study new economic and legal trends in order not to miss any opportunity of finding a more favorable, legal format that would permit them at the least to capture savings from clients as a source of capitalization.

### *Installation of New MIS (eMerge)*

In August 2001, Opportunity International's MIS Director met with AGAPE's Board of Directors to present the MIS Software recommended by the Opportunity International Network, and ask the board to review and evaluate the ability of the software to meet AGAPE's needs. However, AGAPE's current portfolio and accounting system is satisfying the current needs of the organization in regards to information. The interest AGAPE has in acquiring eMerge is to prepare for future growth.

In preparation for acquiring the new system, AGAPE is initiating the pre-installation phase of eMerge in the beginning of October 2001. This process is estimated to take 6 months. Likewise, AGAPE is starting the recruiting and hiring process for an MIS Director.

### **Proposed Revision of Targets**

AGAPE plans to reach most of the key program indicators put forth in the original grant agreement; however, due to the abovementioned circumstances, Opportunity International and AGAPE are proposing the following revision of targets for the remainder of the grant:

<b>Indicator</b>	<b>Year 3 Originals</b>	<b>Year 3 Modified</b>
Exchange to US\$	<i>1550:1</i>	<i>2380:1</i>
Amount of Loans Outstanding	\$3,464,247	\$1,391,825